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HEALTH SYSTEMS

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# Cost Containment in the Ambulatory Care Sector

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## INTRODUCTION

During past two decades the U.S. health care system has been characterized by “limited resources, restriction of growth, and reorganization of the methods of financing and delivering care.” Key factors generating significant changes in health care delivery include cost, quality, and access. Cost has clearly been the predominant factor and driving force behind changes recently seen throughout all sectors of health care delivery. Since the early 1980’s the health care system in this country has also been characterized by the growth of the “influence of the economic market forces” in shaping the delivery of health care. A significant change resulting from rising health costs has been a move towards cost containment. Efforts to contain cost have dramatically changed the landscape of health care delivery.

Our group selected cost of health care within the ambulatory care arena for discussion and analysis. This paper summarizes our discussion, focusing attention on the importance of cost as an impetus for change in healthcare delivery, changes occurring as a consequence of attempting to control costs, and the consequences those changes have had on cost itself.

## COST AS AN AGENT OF CHANGE

Health care costs have the strength and power to dictate current and future directions of almost all aspects of health care delivery in this country. Although a growing public perception of health care entitlement has created unrealistic and unsustainable expectations, this era of “limited resources” makes control and management of expense imperative.

Health care cost is inexorably linked to other important delivery elements, such as access and quality. It has become a limiting factor in the accessibility of healthcare for the vast majority of Americans. Quality or perceived quality of health care is also strongly influenced by cost. The explosive growth of medical technology, heralded for improving health care quality, is widely blamed for escalating medical costs. Controlling and managing health care cost is a complicated issue and has been an elusive target to hit in our complex and evolving health care system.

## IMPACT ON AMBULATORY CARE

During the last two decades, the explosive upsurge in the cost of health care, medical technology and pharmaceuticals has prompted major health care delivery sectors and fiscal intermediaries to develop cost containment measures. Foremost among the resulting changes have been a rise in prominence of ambulatory services due to the emergence of managed care, a movement toward integrated systems of care, and consolidation of hospital services. These three events have elevated ambulatory care services to a central role in the design and operation of health care delivery systems.

The rapid rise in prominence of the ambulatory care sector is largely due to the emergence and rapid growth of managed care. The start of the managed care era began with the weakening of regulatory approaches to control costs and a growing emphasis on market forces. Cost-based reimbursement was widely viewed as responsible for rapidly escalating health costs. Introduction of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 shifted Medicare

reimbursement to a prospective, per-case system based on diagnosis-related groups. This event ushered in the growth of managed care. Hospitals were now required to compete for patient enrollment with managed care plans based on price and quality. The challenge to contain health care costs, provide quality service, and remain financially viable was difficult. Increased cost containment pressure from managed care and reduced inpatient volume forced major structural and organizational changes in the hospital industry.

Managed care is primarily responsible for the shift in health services from inpatient, hospital-based care to outpatient, ambulatory care. Managed care organizations viewed the shift to ambulatory care as a means to reduce and contain costs. This shift was reinforced by medical trends and technological advancements enabling increased outpatient surgical and maintenance-oriented care services. Expansion of ambulatory care services allowed ambulatory care to replace traditionally more expensive inpatient, hospital care.

Cost containment efforts facilitated a movement towards integrated health care systems. The vertical integration of ambulatory services into larger scale systems appears to offer distinctive advantages for managed care plans. Vertical integration refers to organizing the flow of patient care so that the sequential stages in the process are carried out or coordinated by a single organization. Because it is traditionally the principle means of patient interface with the health care system, ambulatory care is in an important position to control various aspects of health care delivery. By integrating ambulatory care into larger integrated systems, cost savings can be realized through reductions in service duplication and shifting of services to lower cost settings. By accepting its role as “gatekeeper” to the larger and more complex health system, ambulatory care is uniquely positioned to manage patient care and ultimately control cost. The integration of ambulatory care services seems to offer the best opportunity for “real” cost containment and savings if not due to anything else but increased efficiency of patient care and management.

Consolidation, or horizontal integration, of the health care services was the next logical progression in cost containment measures. Consolidation of the hospital industry occurred primarily as a reaction by hospitals to ensure financial viability during a time of reduced inpatient volume. Increased efficiency due to economies of scale was the driving force behind this move. The net effect on cost containment of this type of integration has been mixed. In other industries, consolidation of large companies often has not led to the desired cost savings or a profitable outcome. Industries and companies are often built up, only to be divided into smaller entities with the reported purpose of improving efficiency and profitability. Similarly, the move to consolidate the hospital industry on a large scale may not result in the desired savings and containment of health costs in the long-term. However, at least on a smaller scale, consolidation of ambulatory services, as evidenced by the increased growth of group practices, may stand a better chance of containing costs.

## COST CONTAINMENT EFFORTS

Efforts to contain cost within the health care industry fall into two broad categories: restructuring of financing methods and reorganization of delivery methods. Restructured financing methodologies have largely been imposed on the ambulatory care sector. As noted above, the ambulatory care sector has attempted to contain costs through horizontal and vertical integration

of services: an increased growth of group practices, and affiliations with larger health care systems, respectively. It has also assumed an important role as its scope of services has grown and as a gatekeeper to larger and more complex health care services.

The development of medical specialization and rapid advancements in medical technology facilitated and encouraged a dramatic increase in the number of group practices. Since 1980, the number of reporting group practices has almost doubled to nearly 20,000. The expertise necessary for the numerous medical specialties and the ever-increasing complexity of medical equipment meant a single physician was no longer adequately qualified to perform the diverse functions found in modern medical practice. As a provider of ambulatory care services, group practice offers several distinctive advantages that appear to reduce operating costs and improve the efficiency of patient management. Advantages of participating in a group practice include sharing the burden of capital expenses and financial risk, improved contracting and negotiating ability, increased access to specialists and possible economies of scale. Greater negotiating power by group practices allows for improved response to the health care market, a wider range of services and increased affiliations with larger health systems or hospitals. Although participation in group practice reduces operating costs, these cost savings appear to mainly impact the physicians profitability. It is debatable whether growth in group practices translates into effective cost containment in the ambulatory care sector or is merely a reaction to market forces.

Another significant response by the ambulatory care sector is the rapid expansion and growth of ambulatory care services offered. The forces behind the growth of the ambulatory care sector are extremely powerful. The rapid development of medical technology and pharmaceuticals has allowed managed care and larger health systems to push the limits of which procedures and practices are medically and ethically prudent. The pressure of cost containment by managed care will continue to shift services from inpatient to ambulatory care settings. The ambulatory care sector will have to respond with innovative services, technology and service delivery options in order to continue to provide accessible and quality health care.

The ambulatory care sector's designation as "gatekeeper" to a larger, more complex and integrated health system is a key event in its evolution and portends the future direction of growth in the industry. The movement towards large, integrated systems of health has made ambulatory care services a desirable asset to acquire or include in the construction of health care systems. As gatekeeper, ambulatory care can play an important role in reducing cost by improving the efficiency of patient management and care. The central role ambulatory care services provide to managed care inpatient management and the containment of costs places it under increasing pressure to perform.

## RESULTS

Responding to rising health care costs, shifting financial resources, and the evolving health care market place, the health care delivery industry has undergone tremendous changes in the last two decades. Rising health care costs and efforts at cost containment have resulted in dramatic transformations in most health care delivery sectors. In spite of these transformations, including

shifts in health care services to the ambulatory care sector, the effectiveness of these cost containment measures is yet to be completely understood.

Managed care has driven the growth of ambulatory care because of the belief that it is more cost effective than in-patient hospital care. In spite of this shift towards ambulatory care, the country's total health care costs have continued to rise. One has to question if the growth in ambulatory care sector is truly containing health costs or simply shifting costs from one sector to another. The net result may be a wash due to the escalating costs of medical technology and new pharmaceuticals equaling or exceeding the cost of in-patient hospital care avoided. Significant cost savings may be obscured by other forces acting on the health care delivery system.

The health care industry and ambulatory care sector have undergone major structural changes as a result of market forces and cost containment measures. As much as it makes logical sense, vertical integration of ambulatory care services also has yet to prove its effectiveness in containing costs in a larger scale. Regardless of well prepared and executed business plans, external forces influence and change the health care industry landscape. Governmental intervention or regulation, changing demands of the population served, and an aging population can and will affect health care costs and cost containment measures in significant and unexpected ways.

## CONCLUSION

Measuring the effects and outcomes of cost containment efforts in a complex, constantly changing and fragmented industry such as health care is extremely difficult. Satisfactory cost containment in health care is elusive because of its relationship with access to care and quality. An acceptable but limited quality of care may have to be established to control government spending on health care. Unfortunately, this has never been a popular political decision. The current trend has been to let market forces dictate the direction of the health care industry in containing costs. Results of this approach thus far have been unrewarding. In the future, determining the correct balance between cost, access and quality of care in a large, complex and evolving industry will be a daunting task.